

TESTIMONY BEFORE THE UNITED STATES CONGRESS  
ON BEHALF OF THE  
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

**NFIB**  
The Voice of Small Business.®

*Testimony of*

Doug Newman

*before the*

Senate Committee on Small Business and Entrepreneurship

*on the date of*

April 20, 2005, at 10:00 a.m.

*on the subject of*

"Solving the Small Business Health Care Crisis: Alternatives for Lowering  
Costs and Covering the Uninsured"

Testimony of  
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Good morning Ms. Chairwoman and Members of the Committee. On behalf of the 600,000 members of the National Federation of Independent Business (NFIB), and the 23,000 member companies of Associated Builders and Contractors (ABC), I want to thank you for inviting me to speak with you about the health care crisis facing small businesses all over the United States. I would also like to extend a special thank you to Chairwoman Snowe for the strong support you have given small businesses and their employees back in Maine.

My name is Doug Newman, and I own Newman Concrete Services Inc., a concrete construction company based in Hallowell, Maine. We employ 50 hardworking men and women on some of the largest construction projects throughout the State. Of the many challenges I have faced as a small business owner, providing health insurance to my employees has proven to be among the most difficult. Looking ahead, I see the crisis worsening and not much relief on the horizon.

Finding solutions that provide affordable, accessible health insurance is critical for small businesses and, just as importantly, their employees. 45 million Americans are uninsured, and nearly 63 percent of those are employed by small businesses with fewer than 100 employees. Rapidly rising costs and limited choices keep small businesses from providing insurance and will force even more to drop the coverage they currently provide. I believe Association Health Plans (AHPs) offer exactly the kind of immediate relief from rapidly rising health insurance costs small businesses need.

After working in the construction industry for many years, working my way up from laborer to vice president of one of Maine's largest firms, I started my own construction company in 1996. Within a few years, Newman Concrete Services grew to over \$3.5 million in sales and 50 employees. Like most people who start a small business, I was unprepared for the obstacles I would face in starting a company from scratch. I am proud of what my employees and I have accomplished and the company we have built. That said, if you asked me whether I'd do it all over again, I don't know if I could say that I would. The risks and difficulties seem to outweigh the benefits. Trying to maintain health insurance for my employees is at the top of the list.

Like many entrepreneurs, I learned early on that quality employees are vital to a business's success. I compete for the best employees and have to offer health insurance to attract and keep good workers. I believe I share something else with many other business owners, a strong belief that offering health insurance to my employees is the right thing to do. We worked hard to get to a point where we could provide health insurance and view it as a milestone in our company's development. Some of my employees have purchased their first homes and started families now that they have health insurance coverage. Little did I know just how difficult it would be to keep.

As my business struggles to pay rising health insurance premiums, my employees face the same challenge. Just as I cannot raise prices in the current economy to keep up with rising health insurance costs, wages are not keeping up either. Many of my employees are young and most never made it to college. At the entry level, some laborer's wages barely cover basic living expenses for a young family, leaving little room for rising costs like health insurance.

Of my 50 employees, about half are covered under the Health Maintenance Organization Plan (HMO) I offer to my employees through Anthem/Blue Cross Blue Shield. Employees and their families are eligible to participate after six months on the job. I pay over 70% of the employee's premium and 50% of the premium cost for their family. Despite difficult financial times in recent years, reducing the company's share is not an option. My employees simply cannot afford to pay more, and I cannot afford to lose good workers to my competitors. We have cut costs and downsized where we can, but - with limited options - I am forced to stand by as my company slowly slips closer and closer to an inevitable day of reckoning.

I'm not alone in this. Through my involvement with other small businesses in groups like NFIB and ABC, I've met dozens and dozens of others with similar stories. The rising cost of health insurance has overtaken workers' compensation insurance costs, high taxes, onerous regulation and a weak economy as the greatest concern of most small business owners I talk to.

One thing most everyone agrees on is that help is urgently needed. What many find discouraging is not only the lack of hopeful developments on the horizon, but the fact that many State legislatures are making things worse. In addition to expanding Medicaid eligibility without providing a means to pay for it, State legislatures are passing unaffordable mandates and burdensome regulations, which drive the cost of health insurance higher and higher.

Health insurance premiums have increased dramatically in the past four years. In 2000, health insurance for an individual cost about \$42 dollars per week. In 2004, the same coverage cost over \$70 dollars per week for the same employee. Family coverage was \$123 per week in 2000, but by 2004 it had risen to \$211. This amounts to an increase of almost 70% in the last four years. All told, my company contributes over \$50,000 a year for health insurance for my employees and their families. Unfortunately this is often the difference between a small business like mine making money or losing money.

Every year at renewal time, I wonder whether we will be able to offer health insurance another year. We consider ourselves lucky if we get quotes from two carriers, as Maine has only three insurance companies writing a significant number of policies. It seems likely that the rising cost of health care, Maine's aging population and increasing regulation will result in fewer choices in the future.

One reality is inescapable. If health care reforms are not enacted soon to provide relief to small businesses like mine and their employees, there will come a day, soon, when we will be unable to make the numbers work. Health insurance ceased being affordable a long time ago. The cost already affects our ability to grow and make a profit. In the near future, it will simply be impossible to afford. When small businesses like mine can no longer provide insurance, the cost to society will be great. State Medicaid systems, already in crisis, will be overloaded, and the rolls of the uninsured will swell uncontrollably.

For all these reasons, I support S. 406, the Small Business Health Fairness Act of 2005 sponsored by Chairwoman Olympia Snowe - the legislation endorsed by NFIB and ABC that would create Association Health Plans (AHPs). These plans would allow small business owners to band together across state lines to purchase health insurance as part of a larger group, thus ensuring greater bargaining power, lower administrative costs and freedom from the costs of complying with 50 different sets of state insurance mandates.

Extending ERISA preemption of costly and burdensome state mandates currently available for larger self-insured plans to bona fide AHPs will make creative, innovative and cost-effective health benefit plans available to small businesses. In addition, AHPs will decrease administrative expenses and thus provide additional benefit to small businesses providing health insurance. A recent actuarial study released by the U.S. Small Business Administration shows that administrative expenses for health insurance plans that cover small businesses range from 33 to 37 percent of claims as opposed to just 5 to 11 percent of large companies' self insured plans. Before costs associated with overlapping and incompatible State regulation forced ABC to drop it's nationally operated health plan after 40 successful years, the plan incurred total administrative expenses of just 13.5%. It stands to reason that AHPs could result in a 15-20% savings for small businesses from administrative cost decreases alone.

Another benefit to AHPs is that any profit margin generated by an AHP is retained by the plan to the benefit of policyholders rather than being paid out to stockholders. This is a benefit that small businesses who can't qualify for a self-insured plan currently don't have.

Fortune 500 companies and labor unions already enjoy these benefits. Association Health Plans will level the playing field – giving small employers the same privileges as their counterparts in labor and big business. Cost savings and the ability to tailor plans like big business and unions do today is what small business needs to compete and prosper.

Association Health Plans will restore competition by bringing new players into the market. ABC, NFIB and others will compete for my business resulting in lower costs and choices I don't currently have. The affordability and flexibility of AHPs will help reverse the decline in private insurance by offering affordable insurance to the small businesses that provide the jobs to so many who are currently uninsured. Working families will be the beneficiaries.

AHPs will benefit small businesses in every part of the economy including the construction industry. Construction represents close to 12% of the Gross National Product and is the nation's second largest employer with over 7 million workers. An industry of small businesses, 94% of construction companies are privately held. A vital resource for economic growth and the source of lucrative entry-level employment, the construction industry needs to recruit almost 300,000 new workers a year. The ability to offer affordable health insurance is vital to this effort.

There are no other solutions currently on the table that can match AHPs for immediate and positive impact. Association Health Plans are not the only solution to our health care crisis, but they are an essential component to the solution.

Ms. Chairwoman, thank you for allowing me to share my experience with you and the Members of the Committee. I appreciate your support and leadership on Association Health Plans. I urge every member of the committee to support this vital piece of legislation. Small businesses and their employees are looking to you for help, and I know you will respond. Millions of hard working Americans have waited a long time for relief and will be grateful for your action on this issue. Thank you again for your time. I am happy to answer any questions the Committee may have.

# **CORE VALUES**

**We believe deeply that:**

**Small business is essential to America.**

**Free enterprise is essential to the start-up and expansion of small business.**

**Small business is threatened by government intervention.**

**An informed, educated, concerned, and involved public  
is the ultimate safeguard for small business.**

**Members determine the public policy positions of the organization.**

**Our employees and members, collectively and individually, determine the success of  
the NFIB's endeavors, and each person has a valued contribution to make.**

**Honesty, integrity, and respect for human and spiritual values are important  
in all aspects of life, and are essential to a sustaining work environment.**

## **NFIB**

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